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CENTRAL INTELLIGENCE AGENCY
Office of Congressional Affairs
Washington, D.C. 20505
Telephone: [redacted] STAT

TO: For the Record - 15 May 1986

FROM: [redacted] SA/LD/OCA STAT

Hilda Schreiber from OMB called on 14 May 86 to apologize about their inability to give us the testimony on several bills before the Senate Governmental Affairs Committee hearing (on S. 1327, 1727 and 2082). I asked that she send a copy, nevertheless, for our records.

This is a completed action and the testimony is forwarded to us for information only.

It was received in this office the day after OPM testified. ACTION COMPLETED.

[redacted] STAT

Office of Congressional Affairs

FORM 1533 OBSOLETE PREVIOUS (40)

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Action
OCA 86-1641

SUBJECT FILE

OFFICE OF CONGRESSIONAL AFFAIRS

Routing Slip

	ACTION	INFO
1. D/OCA		X
2. DD/Legislation	X	
3. DD/Senate Affairs		X
4. Ch/Senate Affairs		
5. DD/House Affairs		
6. Ch/House Affairs		
7. Admin Officer		
8. Executive Officer		X
9. FOIA Officer		
10. Constituent Inquiries Officer		
11.		
12.		

SUSPENSE 14 May 86
Date

Action Officer:

Remarks:
ACTION completed 14 May 86 (SEE ATTCHD NOTE)

GJ / 14 May 86
Name/Date

STAT

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SPECIAL

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

CONGRESSIONAL AFFAIRS
86-1641

LEGISLATIVE REFERRAL MEMORANDUM

TO: **Legislative Liaison Officer -**
Department of Agriculture-David Hoyt-382-1516
Department of Commerce-Michael A. Levitt-377-3151
Department of Defense-Werner Windus-697-1305
Department of Education-JoAnne Durako-732-2670
Department of Energy-Bob Rabben-252-6718
Department of Health and Human Services-F White-245-7308
Department of Housing and Urban Development-E Murphy-755-7093
Department of the Interior-Linda Moore-343-4371
Department of Justice-Jack Perkins-633-2113
Department of Labor-Seth Zinman-523-8201
Department of State-Lee Ann Berkinbile-647-8794
Department of Transportation-John Collins-426-4694
Department of the Treasury-Art Schissel-566-8523
Council of Economic Advisers
Office of Science and Technology Policy
Agency for International Development-R. Lester-632-8404
Central Intelligence Agency ✓
Environmental Protection Agency-Stead Overman-382-5414
General Services Administration
National Aeronautics and Space Administration-J.Murphy-453-1948
National Science Foundation
Small Business Administration-Janine Perrignon-653-6545
U.S. Information Agency
Veterans Administration-Donald Ivers-389-3831

SUBJECT: OPM testimony before the Subcommittee on Civil Service, Post Office and General Services of the Senate Governmental Affairs Committee on S. 1327, a bill to amend the Government's rates program; S. 1727, the Federal Science and Technology Revitalization Act of 1985; and S. 2082, the Defense Acquisition Enterprise and Initative Act of 1986.

The Office of Management and Budget requests the views of your agency on the above subject before advising on its relationship to the program of the President, in accordance with OMB Circular A-19.

A response to this request for your views is needed no later than NOON MAY 13, 1986. Hearing is May 14, 1986.

Questions should be referred to Gail Webber (395-6156), or to Hilda Schreiber (395-7362), the legislative analyst in this office.

Naomi R. Sweeney for
Assistant Director for
Legislative Reference

Enclosures

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DRAFT

STATEMENT OF
HONORABLE CONSTANCE HORNER, DIRECTOR
OFFICE OF PERSONNEL MANAGEMENT

before the

SUBCOMMITTEE ON CIVIL SERVICE,
POST OFFICE, AND GENERAL SERVICES,
COMMITTEE ON GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

at a hearing on

S. 1327, S. 1727, AND S. 2082

MAY 14, 1986

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

THANK YOU FOR THE OPPORTUNITY TO PRESENT THE ADMINISTRATION'S VIEWS ON S. 1327, A BILL TO AMEND THE GOVERNMENT'S SPECIAL RATES PROGRAM; S. 1727, THE FEDERAL SCIENCE AND TECHNOLOGY REVITALIZATION ACT OF 1985; AND S. 2082, THE DEFENSE ACQUISITION ENTERPRISE AND INITIATIVE ACT OF 1986.

THESE BILLS TESTIFY TO THE FACT THAT THE GOVERNMENT'S PERSONNEL SYSTEM IS NOT WORKING. ITS INFLEXIBILITIES OPERATE AGAINST OUR TOP PERFORMERS AND CRUSH MANAGERIAL INITIATIVE. WE CAN FIND NO WAY TO JUSTIFY A SYSTEM WHICH PROTECTS MEDIOCRITY, WHILE BEING INDIFFERENT TO QUALITY, AND WHICH PUTS A PREMIUM ON "CONTROL" MECHANISMS, WHILE PROVIDING FEW OF THE TOOLS MANAGERS MUST HAVE TRULY TO MANAGE. PRESIDENT REAGAN CAME TO OFFICE WITH THE INTENTION TO MAKE GOVERNMENT WORK FOR THE AMERICAN PEOPLE. IF

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OUR DESIRE IS TO "MAKE THE GOVERNMENT WORK," IT'S TIME TO PUT IN PLACE A FAR MORE DYNAMIC MANAGEMENT SYSTEM--A SYSTEM BUILT AROUND PEOPLE, NOT AROUND PAPER.

FORTUNATELY, WE HAVE AN ALTERNATIVE TO THE CURRENT SYSTEM. THE PRESIDENT HAS CALLED FOR A DYNAMIC APPROACH THAT WILL PRODUCE A COMPREHENSIVE SOLUTION. HE HAS APPROVED THE PRINCIPLE OF A SIMPLIFIED, REALISTIC, AND FLEXIBLE PERSONNEL SYSTEM THAT WILL MAKE A REAL DIFFERENCE TO TAXPAYERS AND FEDERAL WORKERS ALIKE. JUST THREE WEEKS AGO, PRESIDENT REAGAN CALLED FOR REALIZATION OF THIS BETTER WAY TO DO THE GOVERNMENT'S BUSINESS THROUGH A GRADUAL, CONTROLLED EXPANSION OF THE ALTERNATIVE PERSONNEL SYSTEM SUCCESSFULLY DEMONSTRATED AT TWO NAVY LABORATORIES IN CHINA LAKE AND SAN DIEGO, CALIFORNIA. HE HAS ALSO ENDORSED A PROPOSAL TO SEEK LEGISLATION TO ENHANCE PAY RATE AUTHORITY TO ENHANCE HIRING OPPORTUNITIES FOR CRITICAL SHORTAGE OCCUPATIONS. WE WILL SOON BE TRANSMITTING A LEGISLATIVE PROPOSAL TO THE CONGRESS TO IMPLEMENT THE PRESIDENT'S DECISION. TODAY I WOULD LIKE TO DESCRIBE THE OUTLINES OF THE GOVERNMENTWIDE SYSTEM WE WILL BE PROPOSING.

FIRST, HOWEVER, I SHOULD BRIEFLY DISCUSS THE ADMINISTRATION'S VIEWS REGARDING THE BILLS BEFORE THE SUBCOMMITTEE.

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S. 1327 PROPOSES A BROADENING OF THE SPECIAL RATES AUTHORITY IN ORDER TO IMPROVE THE GOVERNMENT'S ABILITY TO RECRUIT AND RETAIN WELL-QUALIFIED EMPLOYEES IN HARD-TO-FILL OCCUPATIONS. WE AGREE THAT THERE IS A NEED TO BROADEN THE SPECIAL RATES AUTHORITY. HOWEVER, THE NEED FOR EXPANSION OF THE SPECIAL RATES PROGRAM IS FURTHER EVIDENCE OF THE BREAKDOWN OF THE GENERAL SCHEDULE'S ABILITY TO RESPOND TO AGENCY NEEDS. THEREFORE, A BROADENING OF THE SPECIAL RATES AUTHORITY ALONE AT BEST SHOULD BE REGARDED AS A STOP GAP MEASURE TO BE USED UNTIL AGENCIES ARE PROVIDED WITH MORE FLEXIBILITY TO RECRUIT AND RETAIN A QUALITY WORK FORCE.

S. 1727 AND S. 2082 BOTH PROPOSE THE ESTABLISHMENT OF ALTERNATIVE PERSONNEL SYSTEMS FOR SPECIFIC OCCUPATIONAL GROUPS. WHILE WE HAVE SOME OBJECTIONS TO SPECIFIC PROVISIONS OF THESE BILLS, OUR CHIEF CONCERN IS WITH THE DANGER THAT THEY WOULD BEGIN THE PROLIFERATION OF ALTERNATIVE PERSONNEL SYSTEMS. BY CONCENTRATING ON PROBLEMS ASSOCIATED WITH OCCUPATIONS, THEY DO NOT ACCOMMODATE THE DISTURBANCES THAT SUCH FRAGMENTED APPROACHES COULD CREATE. THE PROLIFERATION OF ALTERNATIVE SYSTEMS COULD VERY WELL LEAD TO INTER-AGENCY COMPETITION FOR VALUABLE EMPLOYEES, DECLINING MORALE FOR EMPLOYEES LEFT OUT OF THE NEW SYSTEMS, AND AN ATTENDANT LOSS OF FEDERAL PERSONNEL MANAGEMENT INTEGRITY AND CONTROL. WE BELIEVE THAT THE ALTERNATIVE PERSONNEL SYSTEM, WHICH WILL BE SET FORTH IN OUR LEGISLATIVE PROPOSAL WOULD BE A FAR BETTER APPROACH. THIS SYSTEM WOULD ALLOW AN INCREMENTAL EXPANSION OF

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THE SUCCESSFUL DEMONSTRATION PROJECT THROUGHOUT THE FEDERAL GOVERNMENT IN A CONTROLLED, MEASURED, AND BUDGET-NEUTRAL MANNER. AT THE SAME TIME, IT WILL PROVIDE DEMONSTRABLY SUCCESSFUL WAYS OF SIMPLIFYING THE HIRING AND CLASSIFICATION OF EMPLOYEES, FOR MATCHING PAY MUCH MORE CLOSELY TO MARKET NEEDS, AND FOR TYING PAY TO ACTUAL PERFORMANCE.

AS THE BILLS BEFORE THE SUBCOMMITTEE DEMONSTRATE, IT HAS BECOME INCREASINGLY APPARENT THAT THE GENERAL SCHEDULE SYSTEM IS NOT MEETING THE NEEDS OF FEDERAL AGENCIES, OR OF EMPLOYEES AND MANAGERS. THIS SYSTEM, WHICH HAD ITS ORIGINS OVER 60 YEARS AGO, STRESSES ADMINISTRATIVE PROCEDURE AT THE EXPENSE OF MANAGEMENT FLEXIBILITY AND CONTROL. AS A RESULT, FOUR BROAD AREAS OF DISSATISFACTION WITH THE CURRENT GS SYSTEM HAVE EMERGED:

- THE HIRING PROCEDURES ARE EXCESSIVELY REGULATED AND TIME-CONSUMING.

- THE COMPENSATION SYSTEM IS RIGID AND OFTEN INADEQUATE.

- THE PERFORMANCE APPRAISAL SYSTEM DESPITE MAJOR IMPROVEMENTS, STILL DOES NOT SUFFICIENTLY TIE PAY TO EMPLOYEE PERFORMANCE.

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- THE JOB CLASSIFICATION SYSTEM ON WHICH IT IS BASED IS CUMBERSOME AND OVERLY REGULATED.

THE CIVIL SERVICE REFORM ACT OF 1978 CREATED IN LAW AN AUTHORITY FOR PERSONNEL RESEARCH PROGRAMS AND DEMONSTRATION PROJECTS TO ALLOW FOR CONTROLLED, MEASURED EVALUATION OF NEW APPROACHES TO PERSONNEL MANAGEMENT. UNDER THIS AUTHORITY, OPM AUTHORIZED THE DEPARTMENT OF THE NAVY TO EXPERIMENT WITH AN ALTERNATIVE PERSONNEL SYSTEM AT THE TWO NAVY LABORATORIES IN CALIFORNIA.

THE DEMONSTRATION PROJECT PERSONNEL SYSTEM SIMPLIFIES THE CUMBERSOME 18-GRADE GS SYSTEM BY SUBSTITUTING SIX BROAD PAY BANDS WHICH PROVIDE MANAGERIAL FLEXIBILITY. OPM, OTHER OBSERVERS, THE MANAGERS WHO OPERATE THE SYSTEM, AND THE EMPLOYEES WHO ARE UNDER THE SYSTEM BELIEVE THAT THE SYSTEM'S FLEXIBILITY HAS RESULTED IN SEVERAL DISTINCT ADVANTAGES:

- THE SYSTEM IS MARKET-SENSITIVE, ALLOWING COMPETITION FOR QUALITY PERSONNEL IN HARD-TO-FILL OCCUPATIONS

- THE SYSTEM IS GEOGRAPHICALLY SENSITIVE, ALLOWING SOME ADJUSTMENT OF PAY RATES TO REFLECT LOCAL CONDITIONS.

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- THE SYSTEM IS PERFORMANCE-ORIENTED, ALLOWING THE LINKAGE OF PAY FOR PERFORMANCE TO AN EXTENT NOT POSSIBLE UNDER THE CURRENT GS SYSTEM.

- THE SYSTEM IS ADMINISTRATIVELY SIMPLE, GREATLY REDUCING THE EFFORT AND COSTS ASSOCIATED WITH FEDERAL PERSONNEL MANAGEMENT, AND VESTING PERSONNEL AUTHORITY WITH MANAGERS RATHER THAN PERSONNELISTS.

EVALUATIONS OF THE PROJECT BY OPM AND OTHERS, SINCE ITS INCEPTION IN 1980, CLEARLY INDICATE IT IS AN IMPROVEMENT OVER THE CURRENT GS SYSTEM. ITS SUCCESS HAS CREATED MANY SUPPORTERS. THE PRESIDENT'S BLUE RIBBON COMMISSION ON DEFENSE MANAGEMENT, HEADED BY DAVID PACKARD, RECOMMENDED EXTENSION OF THIS "SUCCESSFUL SYSTEM" TO ACQUISTION PERSONNEL IN DOD. IN FACT, BOTH S. 1727, AND S. 2082 WOULD EXTEND UNTRIED VERSIONS OF THE NAVY PROJECT TO SEGMENTS OF THE WORK FORCE. AS I HAVE SAID, HOWEVER, WE BELIEVE THAT IT IS NOW TIME TO BEGIN TO EXPAND THIS CAREFULLY TESTED SYSTEM TO THE ENTIRE WHITE-COLLAR WORK FORCE.

THE ADMINISTRATION PROPOSAL WOULD PROVIDE THE LEGAL AUTHORITY FOR A GOVERNMENTWIDE EXTENSION OF [redacted] THIS ALTERNATIVE PERSONNEL SYSTEM. ITS CHIEF FEATURES WOULD BE:

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- PAY BANDING. THIS SYSTEM WOULD CONSOLIDATE EXISTING GRADE LEVELS INTO APPROPRIATE PAY BANDS THAT WOULD GENERALLY ENCOMPASS THE PAY RANGES FOR TWO OR MORE GRADE LEVELS OF THE GENERAL SCHEDULE.

- SIMPLIFIED CLASSIFICATION. WITHIN THE PAY BANDS, THIS SYSTEM WOULD PROVIDE FOR SIMPLIFIED CLASSIFICATION, WITH AUTHORITY VESTED WITH MANAGERS, RATHER THAN PERSONNEL OFFICIALS.

- PAY FOR PERFORMANCE. PROGRESSION WITHIN THE PAY BANDS WOULD BE GOVERNED BY PERFORMANCE RATHER THAN SENIORITY, WITH GREATER REWARDS FOR THE BETTER PERFORMERS, AND THE ABILITY TO WITHHOLD ADVANCEMENT FOR THOSE WHO PERFORM BELOW THE FULLY SUCCESSFUL LEVEL.

- MARKET SENSITIVITY. THE PAY MANAGEMENT SYSTEM WOULD ALLOW THE ADJUSTMENT OF INITIAL RATES WITHIN THE PAY BANDS TO REFLECT MARKET CONDITIONS, ALLOWING FOR THE RECRUITMENT AND RETENTION OF QUALITY EMPLOYEES IN CRITICAL, HARD-TO-FILL OCCUPATIONS

THE PROPOSAL WOULD LEAVE THE CURRENT GENERAL SCHEDULE IN PLACE, PERMITTING OPM TO GRADUALLY REPLACE IT WITH THE NEW SYSTEM IN CAREFUL STAGES. THE FEATURES OF THE IMPLEMENTATION STRATEGY WOULD BE:

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- SCOPE. OPM WOULD BE AUTHORIZED TO PERMIT THE IMPLEMENTATION OF THE PAY MANAGEMENT SYSTEM IN ANY AGENCY, OR FOR ANY COMPONENT OR OCCUPATION OF AN AGENCY, BUT ONLY IF REQUESTED BY THE HEAD OF THE AGENCY, AND ONLY IF OPM DETERMINED THE AGENCY WAS READY AND ABLE TO IMPLEMENT THE SYSTEM PROPERLY.

- COST. THE IMPLEMENTATION OF THE NEW SYSTEM WOULD BE MONITORED BY OPM TO ENSURE THAT THE SYSTEM DOES NOT RESULT IN INCREASED COSTS TO THE GOVERNMENT.

- EVALUATION. AGENCY USE OF THE NEW SYSTEM WOULD BE EVALUATED BY OPM TO ENSURE THAT OBJECTIVES ARE MET. OPM WOULD BE EMPOWERED TO TERMINATE ANY USE OF THE SYSTEM AND RETURN THE AGENCY TO THE GENERAL SCHEDULE IF OPM DETERMINED THAT THE ~~GOOD~~ GOAL OF COST NEUTRALITY WAS BEING BREACHED OR THE SYSTEM'S OBJECTIVES were OTHERWISE NOT BEING MET.

BECAUSE OF THE INCREMENTAL NATURE OF THE PROPOSED EXPANSION OF THE NEW SYSTEM, WE RECOGNIZE THAT SOME IMMEDIATE RELIEF IS NEEDED FOR THOSE AGENCIES WHICH REMAIN UNDER THE GENERAL SCHEDULE FOR THE TIME BEING, AND WHICH EXPERIENCE DIFFICULTIES IN RECRUITING OR RETAINING EMPLOYEES IN HARD-TO-FILL OCCUPATIONS. THEREFORE,

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OPM WILL BE PROPOSING, AS PART OF LEGISLATION FOR THE NEW SYSTEM, CHANGES TO THE SPECIAL RATES AUTHORITY UNDER THE GENERAL SCHEDULE.

THE NEW SYSTEM WILL PROVIDE AN EPOCHAL REFORM OF THE CIVIL SERVICE WHICH WILL RESTORE THE ABILITY OF FEDERAL MANAGERS TO MANAGE AND MAKE IT POSSIBLE FOR MOTIVATED EMPLOYEES TO PERFORM TO THEIR FULLEST POTENTIAL. UNDER THIS SYSTEM THE FEDERAL WORKER WHO DOES A GOOD JOB WILL GET PROMOTED, GET PAID BETTER, KNOW WHAT'S EXPECTED, AND WILL NO LONGER BE A PASSIVE PARTICIPANT ENGAGED IN PAPER ACTIONS. WE LOOK FORWARD TO WORKING WITH THIS SUBCOMMITTEE IN ACCOMPLISHING THESE MUCH NEEDED CHANGES TO THE CURRENT SYSTEM.

THANK YOU. I WOULD BE PLEASED TO ANSWER ANY QUESTIONS YOU MAY HAVE.

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